

Message Text

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OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08 DRC-01

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FM AMEMBASSY MONTEVIDEO

TO SECSTATE WASHDC 6887

INFO AMEMBASSY ASUNCION

AMEMBASSY BRASILIA

USCINCSO

C O N F I D E N T I A L SECTION 1 OF 2 MONTEVIDEO 1870

E.O. 11652: GDS

TAGS: PGOV, PINT, ECON, UY

SUBJ: POLITICAL-ECONOMIC REVIEW OF SECOND QUARTER

USCINCSO FOR POLAD

REF: MVD 876

1. SUMMARY: A SUPERFICIALLY QUIET SECOND QUARTER FAILED TO PRODUCE THE LONG-AWAITED FORMATION OF A GOU ECONOMIC TEAM. HOWEVER, A CLEARER DEFINITION OF THE MILITARY'S POSITION ENABLED THE PRESIDENT, ATBUARTER'S END, TOMOVE AHEAD WITH AN ADMINISTRATIVE REORGANIZATION AT TOP LEVELS WHICH FURTHER INSTITUTIONALIZED MILITARY PARTICIPATION IN POLICY MAKING AND RESHUFFLED FUNCTIONS AMONG MINISTRIES. URUGUAY'S FOREIGN TRADE HAS HELD UP FAIRLY WELL, CONSIDERING THE IMPACTCZF THE OIL CRISIS ON IMPORTS AND EXPORTS. THE BALANCE OF PAYMENTS FOR 1974 APPEARS CERTAIN TO END IN A DEFICIT, BUT IF LARGE POTENTIAL MEAT EXPORTS AND IMF ASSISTANCE BECOME REALITIES, THEY ARE LIKELY TO

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EMABLE URUGUAY TO WEATHER THAT STORM. END SUMMARY.

2. ALTHOUGH SUPERFICIALLY QUIET, THE SECOND QUARTER OF 1974 NEVERTHELESS WAS ALSO A PERIOD OF POLITICAL DEFINITION. DIFFERENCES AMONG SENIOR MILITARY OFFICERS SUJACED IN THE ARMY OVER THE QUESTION OF SUCCESSION FOLLOWING VICE PRESIDENT ECHEGOYEN'S DEATH ON MAY 17. THE CHIAPPE AFFAIR (MVD 1360), WHICH BROUGHT THE REPLACEMENT OF THE ARMY CINC, SHOCKED SENIOR OFFICERS OF ALL SERVICES AND RESULTED IN AN INFORMAL ARRANGEMENT UNDER WHICH GENERAL AND FLAG OFFICERS WILL DECIDE JOINTLY ON FUTURE POLICY MATTERS AND COMMUNICATE THEIR DECISIONS TO THE PRESIDENT THROUGH THE THREE SERVICE CINC'S (MVD 1658).

3. WITH THE ARMED FORCES HAVING ESTABLISHED A MODUS OPERANDI FOR MAKING MAJOR POLICY AND PERSONNEL RECOMMENDATIONS, THE PRESIDENT MOVED, ON JUNE 27, TO FURTHER INSTITUTIONALIZE STRONGER MILITARY PARTICIPATION IN THE GOVERNMENT (MVD 1813). FOR THE FIRST TIME, THE PRESIDENT ALSO ACKNOWLEDGED THAT HIS ADMINISTRATION'S PRINCIPAL PROPOSAL OF MILITARY (OWING TO THE "DEFECTION" OF CIVILIANS FROM THEIR RESPONSIBILITIES) AND STATED THAT THE ARMED FORCES WERE NOT SEEKING POWER BUT RATHER CARRYING OUT THEIR DUTIES AS DIRECTED.

4. THE PRESIDENT ALSO MADE STRUCTURAL CHANGES DESIGNED TO CENTRALIZE THE GOU'S ECONOMIC OPERATIONS AND STREAMLINE MINISTRIES. THESE CHANGES WERE DESCRIBED BY BORDABERRY AS PROVIDING A PROVING GROUND FOR THE CONSTITUTIONAL REFORM WHICH THE COUNCIL OF STATE HAS BEEN DIRECTED TO UNDERTAKE. THESE REFORMS ARE INTENDED NOT ONLY TO ENHANCE ECONOMIC RECOVERY BUT ALSO TO LEAD TO INSTITUTIONAL REGENERATION WITH REPRESENTATIVE POLITICAL PARTIES WHICH WILL BE DIRECTED TO WORK FOR THE BENEFIT FOR THE NATION

5. BORDABERRY'S CONCEPT OF HIS ROLE ALSO EVOLVED FURTHER DURING THE QUARTER. IN EARLY JUNE THE PRESIDENT REAFFIRMED TO A REUTERS CORRESPONDENT (MVD 1612) THAT THE DATE FOR HOLDING ELECTIONS IN THE FUTURE WAS LESS IMPORTANT THAN COMPLETING THE PROCESS OF POLITICAL RESTORATION AND ECONOMIC RECOVERY. A PRESIDENTIAL SECRETARY SUBSEQUENTLY TOLD AN

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EMBOFF THAT THE PRESIDENT MIGHT STAY BEYOND HIS MANDATE BECAUSE HE WAS DETERMINED THAT THE SUFFERING AND UPHEAVAL OF THE PAST FEW YEARS WOULD NOT HAVE BEEN IN VAIN: THE ADMINISTRATION WILL SEE THAT URUGUAY'S INSTITUTIONS WILL EMERGE IN SUCH A WAY TO ENSURE THAT THE MARXISTS WILL NOT AGAIN THREATEN DEMOCRACY.

6. THUS, IT APPEARS THAT AS WE ENTER A NEW QUARTER, THE

ARMED FORCES AND THE CHIEF EXECUTIVE HAVE FOUND A MECHANISM FOR MOVING AHEAD TOGETHER TOWARDS COMMON GOALS. IT WILL WORK AS LONG AS THE MILITARY REMAINS UNITED WITH RESPECT TO BOTH POLICIES AND THE DESIRABILITY OF RETAINING BORDABERRY IN THE PRESIDENCY. FURTHER PROGRESS WILL DEPEND IN PART ON THE ADMINISTRATION'S SUCCESS IN BRINGING CAPABLE NEW MINISTERS INTO THE GOVERNMENT. A SEARCH FOR SUCH PEOPLE HAS BEEN GOING ON FOR MONTHS BUT WITHOUT MUCH APPARENT SUCCESS. THAT LACK OF SUCCESS HAS BEEN DUE TO THE RELUCTANCE OF MANY PEOPLE TO BE ASSOCIATED WITH THE REGIME-- SOME BECAUSE THEY REALIZE THE GRAVITY OF THE ECONOMIC PROBLEMS AND ARE FRIGHTENED OFF BY IT AND OTHERS BECAUSE THEY BELIEVE THAT URUGUAY WILL RETURN EVENTUALLY TO FULL PARTICIPATORY DEMOCRACY AND THAT THOSE ASSOCIATED WITH THIS GOVERNMENT WILL BE REJECTED BY THE POPULACE.

7. POPULAR SUPPORT FOR THE ADMINISTRATION MAY WELL HAVE DECLINED IN THE LAST SIX MONTHS, IN PART DUE TO THE LOSS OF REAL INCOME AND IN PART TO A NEW SERIES OF ARBITRARY ARRESTS BY HARD-LINERS IN THE MILITARY. THE EMBASSY HAS REPORTED SUCH INCIDENTS ON SEVERAL OCCASIONS BUT AFTER NOVEMBER 1973, WHEN THE CINC'S MOVED TO CONTROL HARASSMENT OF BUSINESSMEN (A-174, DEC 1, 1973), THERE HAD BEEN A DECLINE. THERE WAS SOME RENEWAL OF THESE ACTIVITIES IN RECENT WEEKS, LARGELY RESULTING FROM GENERAL CHIAPPE'S REMOVAL. GEN CHIAPPE IS SUSPECTED OF HAVING BEEN INVOLVED IN CONTRABAND ACTIVITIES OR AT LEAST OF HAVING RECEIVED PAYOFFS FROM THEM; SO LONG AS HE WAS COMMANDER-IN-CHIEF, 9234 RANKING OFFICERS FELT UNABLE TO INVESTIGATE FREELY. ONCE HIS FRIENDS LOST THEIR PROTECTIVE UMBRELLA SOME WERE ARRESTED. THEY TALKED, IMPLICATING OTHERS IN WHAT PROMISES TO BECOME A MAJOR CONTRABANDING SCANDAL IMPLICATING MANY, INCLUDING SOME WHO HAD BEEN IN HIGH PLACES. IN ANY EVENT, THE

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A GROUNDSWELL OF RESENTMENT IN THE BUSINESS COMMUNITY. THIS RESENTMENT, COMBINED WITH INCREASING FRUSTRATION OF THE MAN ON THE STREET OVER HIS DETERIORATING ECONOMIC STRAITS, COULD INCREASE THE POTENTIAL FOR PROTEST IN THE FUTURE.

8. WE DO NOT BELIEVE THAT ARBITRARY ARRESTS OR MISTREATMENT OF PRISONERS ARE CONDONED BY EITHER CIVILIAN OR MILITARY LEADERS AT THE HIGHEST LEVELS. IN FACT, WE HAVE REPORTS OF THE REPRIMANDING AND RELIEF OF INDIVIDUAL MILITARY OFFICERS RESPONSIBLE FOR SUCH ACTIVITIES. UNFORTUNATELY, GIVEN PRESENT CIRCUMSTANCES, CIVILIAN AUTHORITIES CANNOT OR DO NOT IMPOSE THEIR WILL ON THE MILITARY AND SOME DETENTIONS ARE CARRIED OUT BY COMMANDERS OF INDIVIDUAL UNITS PERHAPS, WITHOUT THE KNOWLEDGE OF THEIR SUPERIORS. NEVERTHELESS, THEIR CONTINUATION COULD CONTRIBUTE FURTHER

TO THE DECLINE OF PUBLIC SUPPORT FOR THE ADMINISTRATION.

9. THE FOREIGN TRADE PICTURE, AS PREDICTED, IS SHOWING CLEARLY THE EFFECTS OF THE PETROLEUM CRISIS. BY LATE JUNE THE BALANCE OF TRADE HAD MOVED FROM A SURPLUS POSITION THROUGH OUT MOST OF EARLY 1974 TO A DEFICIT OF \$2 MILLION. ALTHOUGH THE CONSUMPTION OF FUELS AND LUBRICANTS HAS BEEN RESTRICTED, THEIR IMPORTATION FOR THE FIRST FIVE MONTHS OF 1974 STILL COST \$52 MILLION, WELL OVER DOUBLE THEIR COST IN THE SAME PERIOD OF 1973 (\$20 MILLION). MEAT EXPORTS ARE WELL BELOW LAST YEAR'S, AND THE EUROPEAN COMMON MARKET

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SHOWS NO SIGNS OF RESUMING ITS TRADITIONAL PURCHASES OF URUGUAYAN MEAT.

10. THOUGH THE BALANCE OF TRADE IS SLIGHTLY IN DEFICIT, 1974 EXPORTS AS OF THE END OF MAY ((157 MILLION)) WERE RUNNING \$7 MILLION HIGHER THAN JANUARY-MAY 1973. THE TRADE DEFICIT RESULTS PRIMARILY FROM THE FACT THAT THE VALUE OF IMPORTS ALMOST DOUBLED DURING THE SAME PERIOD. AMONG

URUGUAY'S MAJOR EXPORT CATEGORIES, ONLY THE NUMBER-ONE CATEGORY (.3-5 AND MEAT PRODUCTS) SHOWS A SHARP DROP FROM THE SAME 1973 PERIOD (AS OF JUNE 10, FROM \$84 MILLION TO \$68 MILLION). DESPITE ALL THE TROUBLES THE WOOL TRADE HAS BEEN SUFFERING, 1974 EXPORTS OF WOOL AND WOOL PRODUCTS THROUGH THE END OF MAY WERE \$13 MILLION OVER THE 1973 PERIOD (THOUGH VOLUME WAS LOWER).

11. IT IS HARD TO PREDICT WHAT THE IMMEDIATE FUTURE HOLDS IN STORE FOR URUGUAY'S FOREIGN TRADE. NORMALLY AT THIS TIME OF YEAR, EXPORTS SLACKEN FOR A FEW MONTHS, PICKING UP AGAIN
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TOWARD THE END OF THE YEAR, THE NORMAL PATTERN MAY BE INTERRUPTED THIS YEAR BY THE LARGE AMOUNT OF POTENTIAL MEAT (AND TO A LESSER EXTENT WOOL) SALES THAT MAY BE REALIZED IN THE NEAR FUTURE. THE EMBASSY HAS REPORTED THE POTENTIAL MEAT SALES (MVD 1712) THAT HAVE YET TO BE REALIZED BUT ARE REAL POSSIBILITIES. THE PRESIDENT OF THE NATIONAL MEAT BOARD RECENTLY DESCRIBED THE MEAT EXPORT PICTURE TO A LEGISLATIVE COMMISSION IN TERMS (PERHAPS MORE OPTIMISTIC) THAT ADDED UP TO SOME 134,000 TONS FOR THE ENTIRE YEAR- A SUBSTANTIAL GAIN OVER 1973'S 109,000 TONS (THOUGH LACK OF PRICE INFORMATION PREVENTS OUR ESTIMATING WHAT THIS AMOUNT WOULD MEAN IN MONEY TERMS).

12. OUR FORECAST FOR THE 1974 BALANCE OF PAYMENTS DEFICIT FOR URUGUAY IS BETWEEN \$80 MILLION AND \$100 MILLION. BUT THE ABOVE CALCULATION ASSUMES THE ABILITY OF URUGUAY TO EXPORT CLOSE TO 140,000 TONS OF BEEF THIS YEAR (A PREVIOUSLY ANNOUNCED TARGET) AND TO CLAR ACCUMULATED WOOL STOCKS.

13. A BOP DEFICIT OF \$90 MILLION PRESUMABLY COULD BE FINANCED THIS YEAR IF \$55 MILLION COMES AVAILABLE BY THE END OF THE YEAR FROM THE NEW IMF FACILITY FOR COUNTRIES DAMAGED BY PETROLEUM PRICE INCREASES, BUT THIS AVAILABILITY DOES NOT APPEAR CERTAIN. (WE UNDERSTAND THE IMF FACILITY CONSISTS MOSTLY OR WHOLLY OF PLEDGES SO FAR.) AROUND \$50 MILLION IN FOREIGN EXCHANGE WAS HELD BY THE CENTRAL BANK AT THE BEGINNING OF THE YEAR. GOU OFFICIALS ARE EXTREMELY WORRIED ABOUT THIS YEAR'S UNCERTAIN BOP PROSPECTS WITH PRESENT AND ARE ANXIOUS TO HAVE FOREIGN EXCHANGE WHEREVER POSSIBLE. (THUS THEIR PL -480-TITLE I REQUEST FOR \$5 MILLION IN WHEAT AND VEGETABLE OIL ACQUIRES GREATER IMPORTANCE THAN EVER).

14. BECAUSE OF IMF TECHNICAL REQUIREMENTS, URUGUAY WILL HAVE TO MAKE REPURCHASES ON APRIL 30, 1975, WHICH, DUE TO THE LARGE GOLD COMPONENT OF ITS RESERVES, WOULD REQUIRE DELIVERY OF GOLD TO THE IMF. THIS DELIVERY CAN AND UNDOUBTEDLY

WILL BE AVOIDED BY A VOLUNTARY REPURCHASE BEFORE APRIL 30.
IN ORDER TO REDRAW THESE FUNDS HOWEVER, A STANDBY FACILITY
WILL BE REQUIRED.

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15. THERE ARE OTHER REASONS WHY A STANDBY WOULD BE IN
URUGUAY'S INTEREST, CHIEF AMONG THEM BEING THE IMPROVEMENT
OF A COUNTRY'S CREDIT IMAGE WHICH ACCOMPANIES AN IMF
ACCEPTANCE OF AN ECONOMIC PROGRAM ON WHICH THE STANDBY
IS AWARDED. THE CENTRAL BANK HAS BEEN RECOMMENDING THAT
THE GOV REQUEST A STANDBY FOR SOME MONTHS AND HAS UNDERTAKEN
THE TECHNICAL STUDIES ON WHICH TO BASE THE REQUEST. THE
PRESENT ACTING MINISTER OF ECONOMY AND FINANCE, MOISES
COHEN, HAS REPEATEDLY SAID, HOWEVER, THAT ANY SUCH DECISION
IS UP TO HIS SUCCESSOR.

16. THIS CIRCUMSTANCE LEADS US TO MENTION THE REMARKABLE
FACT THAT FOR FIVE MONTHS THE GOV HAS BEEN WITHOUT AN
EFFECTIVE ECONOMIC TEAM, AS THE MINISTRY OF ECONOMY AND
FINANCE REMAINS WITH ONLY AN ACTING MINISTER.
COHEN, WHO HAS SUPERVISED THE DRAFTING AND PRE-
SENTATION TO THE COUNCIL OF STATE OF NOT ONLY THE 1972
RENDICION DE CUENTAS (BUDGET PRESENTATION) BUT THAT OF
1973 AS WELL (DUE IN JUNE 1974). HE HAS ENUNCIATED
(MVD 1726) A SHIFT IN WAGE-PRICE POLICY TOWARD SMALLER,
IRREGULAR AND MORE FREQUENT GENERAL WAGE INCREASES
(THE GOV CLAIMS REAL WAGES ARE KEEPING AHEAD OF INFLATION,
BUT THIS CLAIM IS GREETED WITH WIDESPREAD SKEPTICISM.)
ONE BRIGHT SPOT IN THE ECONOMY THIS QUARTER HAS BEEN THE
EMERGENCE OF THE FIRST SUBSTANTIAL AMERICAN PRIVATE
INVESTMENT POSSIBILITY IN A LONG TIME--A FERTILIZER PLANT
WHICH WOULD COMBINE GOV CAPITAL WITH THAT OF AN AMERICAN
FIRM (MVD 1704).

17. AS THE QUARTER ENDED, PRESIDENT BORDABERRY ANNOUNCED
AN ADMINISTRATIVE REORGANIZATION (SEE ABOVE) BY WHICH ONE
MINISTRY IS ABOLISHED, ANOTHER IS CREATED, AND SEVERAL
FIND THEMSELVES EXPANDED OR CONTRACTED. A NEW ECONOMIC
AND SOCIAL COUNCIL IS FORMED, AND THE OFFICE OF PLANNING
AND BUDGET IS MOVED (SENSIBLY, WE THINK) FROM THE
PRESIDENCY TO THE MINISTRY OF ECONOMY AND FINANCE. MORE
IMPORTANT THAN WHERE FUNCTIONS ARE ADMINISTRATIVELY LOCATED,
HOWEVER, IS THE LEADERSHIP THAT IS APPLIED TO THEM. HERE
THE GOV UNFORTUNATELY REMAINS LACKING.

18. WITH OR WITHOUT GOOD LEADERSHIP, HOWEVER, THE ECONOMIC
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SITUATION FOR THE REST OF THIS YEAR IS NOT PROMISING. WITH LUCK, URUGUAY WILL STAY ABOVE WATER IN ITS BALANCE OF PAYMENTS. BUT WHAT IS NOT INSIGHT IS THAT EXTRA INJECTION OF RESOURCES NEEDED TO RAISE THE ECONOMY OUT OF STAGNATION, AN INJECTION THAT LOOKED WITHIN REACH UNTIL THE OIL CRISIS BORE DOWN ON URUGUAY FROM OUTSIDE. SOME CREDITS FOR BADLY NEEDED CAPITAL GOODS IMPORTS MAY BECOME AVAILABLE FROM ARGENTINA AND BRAZIL, BUT THEY WILL NOT BE ENOUGH TO PROVIDE ALL THE IMPETUS NEEDED.
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